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EU-U.S.Beef Hormone Trade Dispute

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This article provides a brief historical perspective of the beef hormone dispute between the European Union (EU) and the United States and reviews the scientific evidence of health risks associated with products from animals that have been admnistered hormones.

Historical Background

In the 1980s, the EU passed a set of regulations prohibiting the administration of some natural and synthetic growth hormones to farm animals. The same regulations also banned the marketing of domestic and imported meat derived from animals having received these types of hormones.

In 1996, the EU updated the regulations on hormones to prohibit the marketing or importing of meat products obtained from animals having received hormonal or thyrostastic action. Included were the six hormones that were the subject of a trade dispute between the EU and the United States (joined by Canada).

The six hormones at issue were oestradiol-17β, progesterone, testosterone, which are all natural substances, and trenbolone acetate, zeranol, and melengestrol acetate (MGA), which are synthetic. The same regulations permitted EU-member states (only) to use the three natural hormones and other substances with hormonal action for medical and zootechnical reasons. Also, market meat from animals that had been fed these substances was permitted.

In 1996 the United States and Canada brought separate but similar complaints to the World Trade Organization (WTO), claiming that the EU regulations were in contradiction with the principles of the WTO agreements. In the summer of 1997, a WTO panel assembled to resolve the U.S. and Canadian disputes concluded that the EU regulations were inconsistent with some articles of the Agreement on Sanitary and Phytosanitary (SPS) Measures, which was signed by all WTO members in Marrakech in 1994.

> An important question induced by the hormone trade dispute is: How safe are growth hormones? Based on more than 30 years of hormone use in the United States, there is no evidence of hormone residues in meat exceeding recommended standards, or of adverse human health effects coming from this process attribute of beef.

Specifically, the WTO panel concluded that the EU regulations were not based on risk assessment. The regulations used arbitrary distinctions in levels of sanitary protection considered appropriate, which resulted in trade restriction. Furthermore, the inconsistency of EU regulations with international standards was not justified. The panel recommended that the Dispute Settlement Body ruling on the dispute request the EU to bring its regulations into conformity with the SPS agreement.

In September 1997, the EU initiated an appeal to the panel's conclusions as an appellant. The United States and Canada filed as appelees. The EU contended that the WTO panel erred in using the argument of inconsistency with international standards because the Agreement on SPS Measures does explicitly recognize a country's right to set its own standards.

The EU also disagreed with the panel on the burden of proof of the lack of health effects of growth hormones. It claimed that the panel had imposed its own assessment of the scientific evidence and refused the EU precautionary approach to health risk, especially for cancer risk related to the use of the hormone MGA. The EU argued that the SPS agreement allowed countries to exceed international standards and that harmonization to international standards was not implied by the agreement. Another argument cited by the EU was the risk arising from the lack of sound veterinary practice and that the EU should have the prerogative to assess if an exporting member has sufficient veterinary control measures to insure health protection in the EU.

As an appelee, the United States responded that the issue at stake was not the way the risk assessment had been conducted or how risk averse the EU could be with a precautionary stance. The issue was rather that the EU had imposed the trade ban without risk assessment. Furthermore, the United States

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argued that WTO agreements apply to all regulations in member countries, including past regulations. The appelate body reached a similar conclusion to the original ruling, although it corrected some conclusions of the original panel. According to the appellate body, the EU ban was inconsistent with WTO principles, specifically with the SPS agreement because it was not based on risk assessment.

Following the appellate body ruling, the EU filed for arbitration, which is a last-resort means to contest or soften a ruling. The arbitrator had consultations in early 1998 and eventually ruled that the reasonable period of time for the EU to comply with the ruling of the appellate body was 15 months from the date of the ruling (February 28, 1998). By then, the EU's regulations were to be consistent with the WTO Agreement on SPS Measures. The arbitrator rejected the latter request because it was not prompt and not a preferred way to eliminate the inconsistency with the SPS agreement relative to a simple withdrawal of the EU regulation.

At the end of April 1999, the EU announced it would not be able to comply on time with the arbitrator's ruling and would consider offering compensation. Now that the 15-month period has expired, the United States and Canada have been authorized to impose punitive tariffs on selected imports from the EU. In mid-July, the United States announced it would impose 100 percent duties on $116.8 million of EU exports because of th EU's failure to comply with the WTO ruling.

How well does the WTO's dispute settlement mechanism work? First of all, resolution of the EU-U.S. trade dispute took a long time. Initiated in 1996, the beef dispute is still not effectively resolved, and it may still lead to a trade war between the United States and the EU.

Many economists and policy experts have criticized the aggressive stance of the United States when it attempts to open foreign markets using section 301 of the 1974 U.S. trade law. Section 301 uses the mercantilist stick of threats of trade sanction to open foreign markets, and until recently, it has been considered a poor substitute for the legal process of the dispute settlement mechanism under the WTO. Now it appears that the United States and the EU may have reached the same "threat game." This is a real test for the WTO, which has to show it has teeth to the world trading community to keep its credibility. Assuming that the WTO survives this EU-U.S. trade crisis on hormone-fed beef, a bigger challenge awaits the WTO with trade involving genetically modified organisms.

Protecting Consumer Interest

Another issue raised by the hormone dispute is the choice of appropriate policy instrument to use to intervene in markets and protect consumer interest. Except for emergency situations, economists tend to dislike bans because they restrict consumers' quality choice. Some consumers simply do not care about the process attributes of products, that is, the way they have been produced. What policy options could be considered beyond a ban on hormone-fed animal products?

Labeling is a first option. Meat could be labeled indicating the process attributes of the meat, for example, the type of feed and drugs administered to the animal. Then the market forces would determine a price premium if enough consumers valued "hormone-free" meat products higher than meat coming from hormone-fed animals. Such a labeling scheme could be costly to implement because it is difficult to identify meat from animals that received growth hormones. The labeling scheme would require identity through the food chain, i.e., tracking the animals at the farm and monitoring the feeding process to

insure that no hormonal additive has been administered.

Another option would be to set standards limiting hormone residues in meat products to safe or precautionary levels and to impose a ban when the standards were violated. Such standards are already defined by an international institution, such as the Codex Commission, which is shielded from direct political influence. The latter instrument raises the issue of harmonization of standards. Some countries may not agree with international standards as was the case with the EU. Harmonization goes against the presumption of most economists that harmonization of standards among heterogeneous trade partners with different tastes is not optimal. Hence, in practice, finding acceptable standards may be difficult.

An important question induced by the hormone trade dispute is: How safe are growth hormones? Based on more than 30 years of hormone use in the United States, there is no evidence of hormone residues in meat exceeding recommended standards, or of adverse human health effects coming from this process attribute of beef. For most hormones, the absence of health consequences hinges on good veterinary and animal husbandry practices in hormone use. These good practices imply that hormone residues are minimal and correspond to naturally occurring hormone residues levels present in animal products. Hormones, both natural and synthetic, tend to have short half-lives, in the order of a few days. This means their concentration decreases by half within a few days and to nearly undetectable levels within a few weeks. Deviations from these good practices, such as overdose, late injection, or improper injection forms, can have adverse health consequences. Hormones do have health consequences and can be carcinogenic at high dosages. Hence, control and producer education on appropriate procedures appear to be essential components of a well-functioning system. ♦

GMOs in Europe: A Genetically Modified Ordeal?

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One thing seems certain: we are now familiar with yet another acronym. GMO stands for genetically modified organism and designates a living entity (such as a bacterium, plant, or animal) whose genome has been modified by recombinant DNA technology. The ability to alter the genetic makeup of organisms directly by such methods (i.e., transgenic) constitutes the hallmark of modern biotechnology and has ushered in a new era in agricultural research.

The promises of biotechnology in agriculture have at last begun to be realized, and in recent years an increasing stream of transgenic plants have been approved and marketed mostly (but not only) in the United States. Two such crops now well known to midwestern farmers are Roundup Ready (RR) soybeans and Bt corn. For RR crops, the relevant genetic material comes from a particular strain of *Agrobacterium* that, once introduced into the plant, confers resistance to glyphosate herbicide. For Bt crops, the genetic material of interest comes from another bacterium, *Bacillus thuringiensis;* once inserted into maize, it confers to the plant the ability to kill the European corn borer.

Acceptance of GMOs

The GMOs, by and large, have been welcomed by U.S. agriculture and by a number of other countries (notably Canada and Argentina). These new crops were virtually unknown before 1996 but have experienced breathtaking adoption rates. For example, in 1999 more than 50 percent of the soybean crop grown in the United States is genetically modified (at least 40 percent of U.S. corn and about 40 percent of U.S. cotton are also transgenic). For the next crop year it is estimated that 100 percent of the soybeans grown in Argentina will be herbicide resistant. But GMOs have struck a different cord in Europe, where they have met with numerous obstacles from consumers, businesses, policymakers, and regulators.

Safe food is at issue. Transferring genetic material from one organism to a completely different one is perceived by some as unnatural, and it is feared that the presence of a foreign genetic code may induce the transformed organism to produce unwanted toxins and allergens. The absence of risk from eating such food, it is claimed, has not been adequately documented.

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